Understanding Your Pension Plan: A Guide For Members Of Employer Sponsored Pension Plans

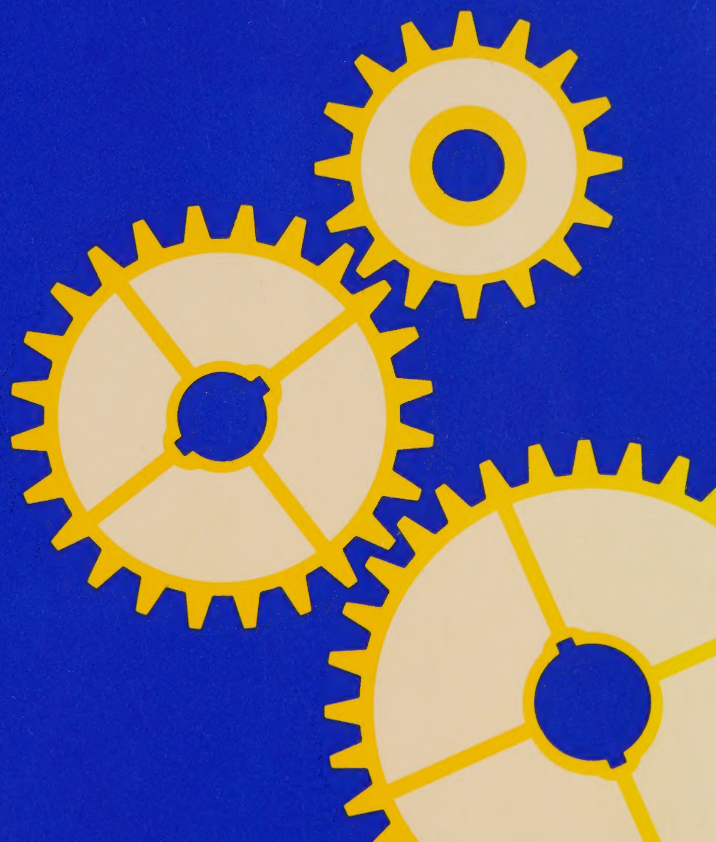

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Table of Contents

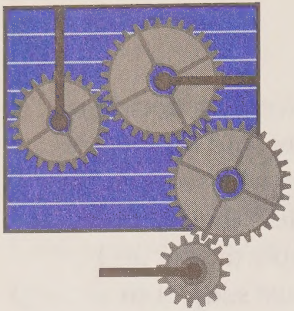
INTRODUCTION

Employers establish pension plans voluntarily but once they decide to do so, they are required to comply with federal tax law and applicable provincial pension legislation. Pension plan members who work in Ontario are covered by the Pension Benefits Act, unless they work in federally regulated industries, such as banking, transportation, and telecommunications. Employees in these industries are subject to federal pension legislation which is administered by the Office of the Superintendent of Financial Institutions in Ottawa.

Employer sponsored plans can vary greatly in the benefits offered to employees. For example, some pension plans are more generous than the minimum standards required by Ontario's pension legislation. This booklet is an attempt to describe the principles and terms that are common to all plans so that members can apply these in gaining a better understanding of how pension plans operate. It should not be taken as a guide to the entitlements offered by a particular pension plan. Readers are encouraged to consult their plan administrators or unions for details relating to specific plans.

In a publication of this sort, it is difficult to avoid technical terms entirely. For your reference, a glossary appears on page 26.

This booklet has been developed by the Pension Commission of Ontario as a general guide for beneficiaries of pension plans concerning their minimum rights and entitlements under Ontario law. This booklet has no legal authority and should not be construed as legal advice. The information contained here is designed to be read in conjunction with the individual pension plan in question. Readers who require further information relating to specific matters should obtain independent legal, actuarial, or other professional advice.



Financial Planning for Retirement

Each of us has a variety of demands competing for our financial resources. Saving for our retirement is inevitably one of those demands. Fortunately, many employers and unions recognize this fact and help their employees plan for retirement by setting up employer-sponsored or "private" pension plans.

The private pension system operates independently of existing government programs such as Old Age Security (OAS), the Canada Pension Plan (CPP), and the Guaranteed Income Supplement (GIS). Together with personal savings, these programs represent the financial structure that will support most people during their retirement years.

Individuals who do not have a private pension plan must rely more heavily on the personal savings they accumulate during their working lives. Fortunately, the tax laws in Canada permit a certain amount of money to be set aside each year, on a tax exempt basis, in a Registered Retirement Savings Plan (RRSP). The annual maximum amount that may be contributed to an RRSP is higher for people who are not members of a private pension plan.

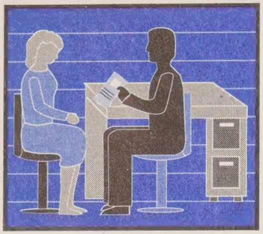
Readers are encouraged to consult other knowledgeable sources for more complete information on financial planning for retirement.

Understanding Your Pension Plan

New pension legislation, the Pension Benefits Act, came into force in Ontario on January 1, 1988. Several provisions in the new legislation were retroactive to January 1, 1987. This is relevant to employees who joined either the workforce, or their employer's pension plan, prior to that date because different legislation will apply before and after January 1, 1988, and this may affect pension entitlements.

When a member of a pension plan retires, he or she receives from the plan a pension or "benefit", usually on a monthly basis. The amount of the pension is based on a number of factors which are discussed throughout this booklet.

Pension plans are usually sponsored by employers, but they may also be sponsored by unions. In either case, employees who accumulate benefits in a pension plan are members of that plan. Membership in most pension plans is compulsory. The terms of membership are specified in the sponsor's plan documents.



Qualifications for Plan Membership

Since January 1, 1988, full-time employees have been eligible to join their company's pension plan after 24 months of continuous service, or earlier if the pension plan permits. Pension plan membership is often a requirement of employment. On occasion, membership may be limited to specified classes of employees.

Part-time employees who meet certain conditions are also eligible to join their employer's pension plan. Part-time employees who are in the same job class as full-time employees become eligible for membership after 24 months of continuous service. These employees must meet one of the following service and earnings requirements:

- 700 hours of work for the employer annually; or
- annual earnings of at least 35 per cent of the Year's Maximum Pensionable Earnings (YMPE) in each of the two consecutive years before joining the plan.

The YMPE is the maximum amount of annual earnings from employment on which Canada Pension Plan contributions (deductions) and benefits are calculated. The federal government adjusts the YMPE every year according to a formula based on average wage levels in Canada. The YMPE is published annually by Health and Welfare Canada's Income Security Programs office.

Types of Pension Plans

Pension plans can vary greatly in terms of their structure and the benefits they provide. The two most common types of pension plans are the defined benefit plan and the defined contribution (or money purchase) plan. Some plan sponsors offer a combination of the two types of plans - known as "Hybrid" plans.

To distinguish between the two types of plans it is important to note that in a defined benefit plan, members earn a specified benefit while they are working. This benefit will later be paid out as a regular, periodic amount during the member's retirement years. Members of this type of plan are advised annually of the amount of pension benefit they have earned or "accrued" up to that point.

By contrast, members of a defined contribution plan do not know the amount of pension they will receive until they reach retirement. At that time, the contributions, plus interest, that each member has accumulated in the plan will generally be used to purchase an annuity which will provide him or her with a regular pension.

The two basic types of plans are described in more detail in the following sections.

Defined Benefit Pension Plans

Defined benefit plans are designed to provide members with a specified amount of pension benefit when they retire based on a pre-determined formula. Generally, this formula depends on factors like years of service, earnings, and job classification, and is described in the pension plan documents provided to members.

The following are three types of benefit formulae commonly used to determine a member's pension:

1) Final Average Earnings Formula:

   Member's annual pension benefit =
   (X% of the Member's average earnings over the best Y years) x
   (Member's total years of pensionable service)

2) Career Average Earnings Formula:

   Member's annual pension benefit =
   X% of Member's annual earnings while a participant in the plan

3) Flat Benefit Formula:

   Member's annual pension benefit =
   ($Z Annual pension benefit) x (Member's total years of pensionable service)

Note: X, Y, or Z will be defined specifically for each pension plan.

Funding of Defined Benefit Plans

Sponsors of defined benefit pension plans are obligated to set funds aside regularly to pay for the pensions that members will receive in retirement. These funds must be held separate and apart from the assets of the sponsor so that the pension funds will be protected should the business fail.

Pension legislation further protects benefits by setting standards which must be followed by the managers who invest pension funds. For example, no more than 10 per cent of a pension fund can be invested in the securities of any single company. Special rules also apply to particular types of investments.

Except where plan assets are held with an insurance company, pension plan administrators must set formal investment policies and goals and review them annually to reflect changing plan obligations and market conditions. Pension plan members are entitled to review this information once each year.

Defined Contribution Pension Plans

In a defined contribution or money purchase pension plan, a specified amount of money is contributed regularly for each member. This money is placed in an investment account in the member's name. At retirement, these contributions - plus interest - are used to purchase an annuity (or other income producing arrangement) for the former member.

Ultimately, the size of a member's pension depends on the amount of the contributions made by, or on behalf of that member. It will also vary due to the interest earned on those contributions and the annuity rate at the time of retirement. As a result, the exact amount of the pension is not known until the member reaches retirement age.

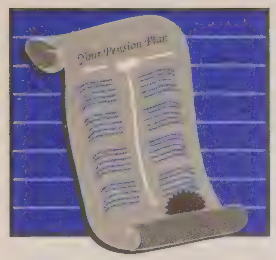
Multi-employer Pension Plans

Multi-employer pension plans can be established for employees of two or more employers. Contributions made to the pension fund are determined by an employee's service with one or more of the employers. Multi-employer plans may be either defined benefit or defined contribution plans.

Generally, multi-employer defined benefit plans differ from other defined benefit plans in that the benefits are not necessarily guaranteed. This is because multi-employer plans that provide defined benefits limit the employer's contribution to the pension fund to a fixed amount (usually set out in a collective agreement). If the funds contributed by the employer are insufficient to provide the intended benefit, the benefit payable at retirement may have to be reduced.

Contributory vs Non-contributory Pension Plans

Pension plans are designed to be either contributory or non-contributory. When the employer and the member both contribute, it is called a contributory plan. When only the employer contributes, the plan is said to be non-contributory.



Vested Pension Benefits

Vesting means pension plan members are entitled to receive the benefit, or contributions plus interest, they have earned under the pension plan. Fully vested members are entitled to receive pension benefits, or contributions plus interest, earned from the first day of plan membership to the date of retirement or termination.

Ontario legislation specifies the maximum period of time that members must wait before becoming vested. However, some plan sponsors allow members to vest earlier than required by legislation.

For benefits earned prior to 1987, members are vested if they are both 45 years of age and have ten years of continuous plan membership or service with the plan sponsor. Benefits earned after 1986 are vested when the member has completed two continuous years of plan membership.

This means for example, if you became a member of a plan in June 1980, your entitlement from June 1980 to December 31, 1986 is determined by the "45 and 10" rule. It is important to note that members must satisfy the "45 and 10" rule at the date of their termination or retirement (as opposed to the date the legislation took effect) to be eligible for benefits earned up to December 31, 1986. To establish eligibility for pension entitlements earned after December 31, 1986, members are vested if they have been a member of their sponsor's plan for two years (either before or after December 31, 1986).

Members who leave a pension plan before becoming vested forfeit their right to a pension benefit or any associated contributions made by their employer. In such cases, however, members are entitled to a refund of their own contributions (if any), plus interest.

Sometimes members have only a small vested benefit in the plan when they terminate their employment. If the plan permits, the legislation allows members with an annual benefit payable at normal retirement of less than 2 per cent of the YMPE to receive their entitlements in cash.

Locked-in Pension Benefits

Once pension benefits become vested they are also locked-in in accordance with pension legislation. Once a pension is locked-in, funds cannot be taken out of the pension plan as a cash lump sum at any time. Locked-in funds can only be used to provide a retirement income to the plan member (or the member's spouse).

If a fully vested member of a pension plan terminates employment before reaching retirement age, there are portability options which are described in a following section. Nevertheless, the pension contributions remain locked-in to the extent that they may not be withdrawn as cash.

The 50 Per cent Rule

The 50 per cent rule applies to members of contributory defined benefit pension plans who qualify to receive a pension entitlement. Ontario's pension legislation requires that plan sponsors provide at least 50 per cent of the value of the benefit earned after December 31, 1986.

It is important to note that the 50 per cent rule does not mean plan sponsors must pay the same amount as the member. Rather, it allows members to receive a refund of any contributions which constitute in excess of half the value of the pension.

The following example illustrates how the 50 per cent calculation works.

Nadia was a member of her employer's pension plan from 1988 to 1992. When Nadia terminated her employment after four full years of service, the administrator calculated the commuted value of her defined benefit pension to be $5,000. According to the 50 per cent rule, Nadia should have contributed no more than half this amount, that is $2,500. However, Nadia's contributions, plus interest, totalled $3000, that is $500 more than 50 per cent of the commuted value.

Nadia received a refund of $500 in cash. The $5,000 commuted value of the pension benefit was transferred to Nadia's locked-in RRSP where the money continues to earn interest, tax free, until it can be used to provide a pension.

Portability Options

Portability gives pension plan members, in certain circumstances, the ability to transfer pension monies from their employer's plan. It applies specifically to vested members who terminate employment before becoming eligible to receive a retirement pension. Under most plans, it is possible to receive a retirement income at age 55. Transfer options are limited to ensure that the funds continue to be locked-in.

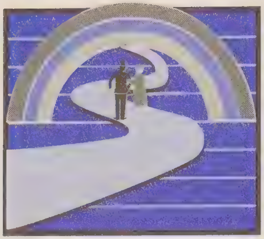
Portability Options Include:

- transfer of the commuted value of a pension benefit to another pension plan willing to accept the funds;
- transfer of the commuted value to a locked-in RRSP;
- purchase of a deferred life annuity.

It is important to note that the funds may be left in the former employer's pension plan. Once a member elects a transfer option the choice cannot be changed at a later date.

When Portability Rights May Not Apply

Vested members who are eligible for early retirement under the plan do not have the right to portability at the time of termination, unless their plan specifically provides for it. These members must receive a pension directly from the plan which may start immediately or at the normal retirement date.



Early and Normal Retirement Age

When members reach normal retirement age they are eligible to begin receiving a pension. This date cannot be later than the member's 66th birthday.

Members may choose to retire at any time so long as they are within ten years of the normal retirement age. However, by selecting an early retirement option the member will generally reduce the amount of pension that he or she will receive at retirement. This is generally due to the member's reduced years of service with the employer, and subsequently, the increased number of years during which the pension will be paid.

Working Beyond Retirement Age

Members may choose to postpone retirement and continue accruing benefits, if their employer permits. If a member chooses to receive pension benefits while continuing to be employed, no future benefits can be accrued.

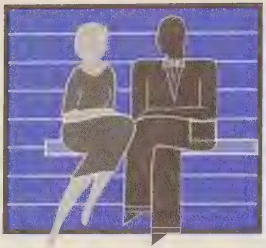
Information Provided to Members

Pension plan administrators are required to provide members with specified information about their pension plans and benefit entitlements.

Each year, within six months following the plan's year end, each member must receive an annual statement containing current information about his or her benefit entitlement. This statement records such information as accrued benefits; annual and accumulated contributions made to the pension fund; the member's normal retirement date under the plan; and the name of the person designated as beneficiary.

Administrators are also required to give members a written explanation of the provisions of the plan, and an explanation of any amendments affecting members.

If questions arise, members should contact their plan administrators or unions for assistance.



Spouses are Protected when a Vested Member Retires

When a pension plan member retires, his or her pension must be offered in a “joint and survivor” form. This option entitles a surviving spouse to a lifetime pension of at least 60 per cent of the monthly pension paid to the plan member. Because of the joint and survivor arrangement, the amount of the pension payable to the member at retirement may be reduced to ensure that continuing payments can be made throughout the lifetime, not only of the member, but also the member’s spouse.

Members and their spouses may choose an alternative to a joint and survivor pension by jointly signing a waiver. The usual alternative form of payment is a single life annuity payable during the lifetime of the member and ending with his or her death. Such an annuity may be with or without a guarantee period, that is, a fixed period of time during which the pension will be paid regardless of the actual life span of the member.

Signed waivers may be cancelled by the member and the spouse by providing written notice to the administrator prior to the commencement of the pension. If cancelled, the pension is once again offered in the “joint and survivor” form.

Members and their spouses should obtain independent legal advice before waiving the right to a “joint and survivor” pension benefit.

Consider the example of Frank and Frances:

Frank and Frances are reviewing Frank's retirement option statement and are faced with selecting one of the following options: (This example is based on reasonable assumptions.)

- A single life annuity with no guarantee period that will pay for Frank $1,000.00 per month.
- A single life annuity with a guaranteed period of 10 years that will pay Frank $930.00 per month. If Frank dies within the 10 year guarantee period after retirement, Frank's beneficiary will receive the same monthly payment for the remainder of the 10 year period.
- A 60 per cent joint and survivor annuity that will pay Frank $850.00 during his lifetime, and then $510.00 to Frances (upon Frank's death) for the remainder of her lifetime.

As they work through the options, they see that the single life annuity provides the largest monthly pension as long as Frank is alive, but offers no continuing income to Frances if she survives him.

The single life annuity with a guaranteed 10 years is payable to Frank for the duration of his life, and if he lives more than 10 years after retirement, it will stop at the time of his death. If he dies before the 10 years expire, the pension is payable to Frances only for the remainder of the 10 year guaranteed term.

The joint and survivor option provides the smallest monthly payment to Frank but is payable throughout his life. Upon his death a reduced amount is payable to Frances for her lifetime.

Frank and Frances decide that the security of a lifetime income assured to each partner is the wisest choice, and opt for the joint and survivor form of pension.

Members Who Die Before Retirement

When plan administrators receive notification of a member's death, the beneficiary is provided with an option statement setting out the details of the deceased member's pension benefit, and the options available to the beneficiary. Once the beneficiary receives the option statement, the process for dispensing the member's benefits begins.

For Benefits Earned Before January 1, 1987:

Before January 1, 1987, there was no legislated requirement for vested benefits to be paid as a death benefit. As a result, beneficiaries have no entitlement to benefits earned by the member before this date, unless the plan specifically provides for them. However, if the plan is contributory, member contributions made before January 1, 1987, plus interest, must be refunded to the beneficiary. This refund is usually payable as a lump sum.

For Benefits Earned After December 31, 1986:

Vested benefits earned after December 31, 1986, are payable as a death benefit. In relation to a defined benefit plan, this entitles the beneficiary to the commuted value of the member's benefit. In a defined contribution plan, this entitles the beneficiary to the contributions of the employer and the member (if any), plus interest.

If the member is not vested, the beneficiary is entitled to a refund of the member's contributions (if any) with interest. This refund is payable as a lump sum.

If the member is vested, a spouse living with the member at the time of death is the automatic beneficiary, unless the spouse has waived that entitlement in writing. Death benefits are payable to beneficiaries in a lump sum or as an immediate or deferred pension. If the beneficiary does not elect a payment option within 90 days, the administrator may choose to pay the death benefit in the form of a pension.

Members' Advisory Committee

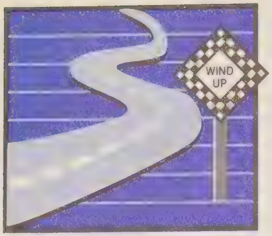
Members or former members of a plan may establish a pension plan advisory committee. The decision to establish such a committee must be voted on and approved by a majority of plan members participating in the vote. There is no requirement for employers to assist in the establishment of the advisory committee.

If a committee is set up, it is permitted by legislation to monitor the plan and to comment and make recommendations on plan administration. However, there is no requirement that the employer must accept the recommendations of the advisory committee.

THE PENSION BENEFITS GUARANTEE FUND

Sometimes an insolvent company that sponsored a defined benefit pension plan (excluding multi-employer defined benefit plans) cannot pay the pension promised. This usually occurs because the assets in the pension fund are insufficient to meet the plan's liabilities, and the company has no other source of funds from which to make up the deficiency. Following a review by the Pension Commission of Ontario, the Pension Benefits Guarantee Fund (the PBGF) may be declared to apply. If a claim is processed, the PBGF guarantees payment of certain defined benefits and protects those benefits related to Ontario employment and service. The guaranteed benefits are subject to certain limitations.

The PBGF is funded through assessments levied on every Ontario registered defined benefit pension plan.



Pension Plan Wind Ups

Pension plans are affected when a significant number of members cease employment with the company. This can be due to a variety of circumstances, such as a discontinuance of operations, a reorganization of the employer's business, or the bankruptcy of the employer. Plans can be fully or partially wound up depending on the number of members affected.

For more information, please consult "When Your Pension Plan Winds Up: What it Means to Members", a publication available from the Pension Commission of Ontario.

The Pension Commission Of Ontario

The Pension Commission of Ontario is responsible for administering the Pension Benefits Act, and for ensuring that plan administrators comply with its provisions.

Although plan administrators and unions can usually provide any information about the plan that members require, occasionally members may wish to consult the Pension Commission. General enquiries can usually be answered over the phone. However, more specific matters may require a letter setting out the nature of the problem with all relevant facts.

For more information call or write to us at:

The Pension Commission of Ontario
101 Bloor Street West
9th Floor
Toronto, Ontario
M7A 2K2

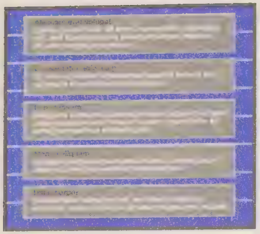
Telephone: 416-314-0660
Fax: 416-314-0620

Appendix A: Highlights of Pension Reform

	Prior to January 1, 1988	After December 31, 1987 *
Eligibility for Membership	Plan provisions govern	Full-time employees: After 24 months continuous service Part-time employees: After 24 months with lesser of 35% of YMPE or working 700 hours in each of 2 calendar years immediately prior to membership
Vesting	age 45 with 10 years of service or membership for benefits earned prior to 1/1/87	2 years of plan membership for benefits earned after 31/12/86
Locking in	age 45 with 10 years of service or membership for benefits earned prior to 1/1/87	2 years of plan membership for benefits earned after 31/12/86
Portability	Plan provisions govern	Vested pension of member terminating after Dec. 31/87 can be transferred to: (may not apply to those 55 or older) - another employer's pension plan - left in the plan - locked-in RRSP - purchase of life annuity - life income fund
Minimum Employer Contributions - Defined Benefit Plans	No requirement	For 1987 and later benefits, employer must fund no less than 50% of vested contributory pension

	Prior to January 1, 1988	After December 31, 1987 *
Pre-retirement Death Benefit	Refund of at least employee contributions & interest; otherwise, plan provisions govern	100% of commuted value of member's pension earned after 31/12/86 to spouse as lump sum or pension benefit, or other if spouse & member waive.
Death After Retirement - (Joint and Survivor Provision)	In accordance with elected option, member may select a survivor benefit option	Plan must offer a survivor benefit of at least 60% of member's pension paid to spouse, unless couple have waived right to spousal entitlement; Applicable to payments that commence on or after Jan. 1/88 if the member has a spouse at the time payment commences.
Survivor Pensions on Remarriage	Plan provisions govern	Survivor benefits must continue on remarriage of spouse
Early Retirement	Plan provisions govern	Election of early retirement allowed within 10 years of the plan's normal retirement date
Periodic Benefit Statement	Every three years	Annually
Member Access to Information	- plan text and amendments - last two AIRs - last two cost certificates - in some types of Defined Benefit plans, the actuarial report - wind-up report	Member may review all information (other than personal information about other members) filed with Pension Commission. Member must make written request to administrator for access.

* Note: Some provisions became effective retroactive to January 1, 1987



Appendix B: Glossary of Pension Terms

ACCRUED PENSION - Amount of pension credited to a plan member according to service, earnings, etc., up to a given date.

ACTIVE MEMBERS - Employees currently working and who are members of a pension plan.

ACTUARY - A professional in the pension and insurance fields responsible for calculating insurance risks and premiums. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

ADDITIONAL VOLUNTARY CONTRIBUTIONS - Contributions to a pension plan made voluntarily by an employee in addition to those required for specific plan benefits. Extra benefits are purchased by the additional contributions but no additional cost is borne by the employer.

AD HOC ADJUSTMENT - Amount added to a pension after retirement or termination to compensate for increases in the cost of living on an irregular basis and not as a result of a prior commitment or contract.

ADMINISTRATOR - The person or persons who administer the pension plan, i.e., who arrange for pension payments, funding of the plan, etc.

ANCILLARY BENEFITS - Benefits in addition to regular pension benefits and survivor benefits such as bridging benefits and enriched early retirement benefits.

ANNUITY - In pension terminology, periodic payments (usually monthly) provided by the terms of a contract for the lifetime of an individual (the annuitant) or the individual and his or her designated beneficiary; may be fixed or varying amount, and may continue for a period after the annuitant's death.

ASSET MIX - The mix of assets refers to the proportions of various types of investments held by a pension fund, usually expressed as a percentage of total investments held in bonds, equities, real estate etc.

BENEFICIARY - In a pension plan, a person who on the death of a plan member or pensioner, may become entitled to a benefit under the plan. (See Survivor Benefits, Death Benefits)

BENEFIT - Generally, any form of payment to which a person may become entitled under the terms of a plan; often refers specifically to the normal pension provided by the plan formula.

BENEFIT FORMULA - Provision in a pension plan for calculating a member's defined benefit according to years of service and earnings (career or final average), a fixed dollar amount, etc.

BEST FIVE-YEAR AVERAGE - A defined benefit plan that applies the member's average earnings during the five years when earnings were highest.

BRIDGING BENEFITS - A temporary benefit provided to employees who retire prior to the age when OAS and CPP benefits are available (age 65) in order to supplement their pension income until these benefits apply.

CAREER AVERAGE PLAN - A defined benefit plan that applies the unit of benefit to earnings of the member in each year of service, and not to the final or final average earnings.

COMMUTED VALUE - Amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments.

CONTINUOUS SERVICE - Period during which an employee is continuously employed by the same employer; may be defined in the pension plan (or by law) to include certain periods of absence, and/or service with an associated or predecessor employer. To be distinguished from Credited Service.

CONTRIBUTORY PLAN - A pension plan which requires the employees to make contributions by payroll deduction in order to qualify for benefits under the plan.

CREDITED SERVICE - Length of service used in the plan formula to calculate a defined benefit.

DEATH BENEFIT - A lump sum (usually), or a life annuity payable from a pension plan to the beneficiary or estate of a member who dies before retirement. May refer to a payment on death after retirement.

DEFERRED MEMBERS - Terminated employees eligible for a deferred vested pension.

DEFERRED VESTED PENSION - A specified pension determined at the time of termination of employment or termination of a plan but not payable until some later date, usually normal retirement age.

DEFINED BENEFIT PLAN - A pension plan that defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If the plan is contributory, the rate of employee contributions may be specified, with the employer paying the balance of the cost. To be distinguished from a defined contribution plan.

DEFINED CONTRIBUTION PLAN OR MONEY-PURCHASE PLAN - A plan under which the amount of the employer contribution per plan member and, where applicable, the amount of the employee contribution is specified in advance and the benefits to be received by the retirees is calculated at the date of retirement based on the accumulated contributions and the investment yield on the accumulated contributions.

DIVISION OF PENSION CREDITS - Also known as "credit splitting", a provision in pension plans or pension legislation whereby one spouse on dissolution of marriage, may obtain a share of pension credits earned by the other partner during the period of marriage or thereafter.

ELIGIBILITY REQUIREMENT - A condition such as age or length of service that must be met before an employee is permitted or required to join a pension plan. Term may refer to eligibility for certain benefits.

EMPLOYMENT PENSION PLAN - A pension plan offered by an employer or supported by a group of employers for the benefit of employees. The term includes plans covering employees of governments and the private sector, but does not include the Canada Pension Plan or other public programs.

FINAL PAY PLAN - A term commonly used for a pension plan in which benefits are based on earnings in a member's last years of service.

FLAT BENEFIT PLAN - A defined benefit plan that specifies a dollar amount of pension to be credited for each year of service.

FULLY FUNDED - A term describing a plan which, at a given time, has sufficient assets to provide for all pensions and other benefits in respect of service up to that date.

FUNDING - Systematic monthly payments into a fund which, with investment earnings on these funds, are intended to provide for pensions and other benefits as they become payable.

GUARANTEED ANNUITY - An annuity which will be paid for the lifetime of a person or for a certain period which ever is longer but in any event for a minimum period, e.g., if an annuitant with a five year guarantee dies after three years, payment will be continued to a beneficiary or the estate for two years.

INDEXING - A provision in a pension plan calling for periodic adjustments to benefits (usually after retirement) according to a formula based on a recognized index of price or wage levels, e.g., the Consumer Price Index.

INVESTMENT MANAGERS - Plan sponsors are frequently assisted by investment managers who help them decide how the pension funds should be invested. These managers are supervised by the plan sponsor.

INVESTMENT RETURN (YIELD) - Earnings of a pension fund including interest on fixed income securities (bonds, mortgages, etc.) dividends, capital gains, etc.

JOINT AND LAST SURVIVOR ANNUITY - An annuity payable until the death of the retired employee, and continuing thereafter to the surviving widow or widower until that person's death. Required to be provided as an option at time of retirement; may be equal in value to the retired employee's pension or reduced on his or her death.

LIFE INCOME FUND (LIF) - A prescribed retirement savings arrangement that can be purchased with funds locked in by pension legislation. Plan members, former members and their spouses or former spouses can purchase a LIF and begin receiving an income as early as age 55.

LOCKING IN - Legislative requirement that pension contributions cannot be withdrawn or otherwise forfeited on termination of employment if the employee is vested. (See Vesting)

MONEY PURCHASE PENSION PLAN - see Defined Contribution Plan

MULTI-EMPLOYER PENSION PLAN - A pension plan covering employees of more than one employer, usually by agreement with a union or group of unions.

NON-CONTRIBUTORY PLAN - A plan in which all required contributions are made by the employer.

NORMAL RETIREMENT AGE - The age at which the member becomes entitled to retirement benefits.

PAST SERVICE - The period of service accrued by an employee before becoming a member of a pension plan. Term may be used to define certain benefits that differ from those of current service (future service).

PENSION - Generally, any regular periodic payment for the lifetime of a person who has retired from the service of an employer.

PENSION BENEFITS ACT - Ontario's legislation regulating employment pension plans. It specifies minimum benefit provisions, funding and solvency requirements and investment guidelines.

PENSION PLAN - A plan organized and administered to provide a regular income for the lifetime of retired members; other benefits that may be provided include payments on permanent disability, death, etc. (See also Annuity)

PLAN MEMBER - A Member of a pension plan.

PLAN SPONSOR - Refers to the employer sponsoring the pension plan for employees.

PORTABILITY - Options available to an individual on termination of employment. Relates to transferring the value of accumulated pension credits to a registered retirement savings plan account or to the plan of his or her new employer in order to facilitate retirement planning. Under the Pension Benefits Act an employee has these options in addition to the option of a deferred pension from the original plan at normal retirement age. (See also Vesting)

PRIVATE PENSION PLAN - An employment pension plan offered by an employer or by employers and unions in the private sector.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) - A personal retirement savings plan, defined in the Income Tax Act, allows contributions to be deducted from income (which is subject to taxation), and tax is deferred on contributions and investment income until income is received as annuity payments. (Locked-in RRSPs may not be converted to a Registered Retirement Income Fund.)

RETIREMENT - Withdrawal from the active work force because of age; may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

RETIREMENT INCOME - Income from pension and other sources, to which a retired person is entitled. Term may include both private and public pension payments, income from personal savings, government income supplements, and certain other sources of income (e.g., free health insurance premiums).

SPOUSE - A man or a woman who:

a) are married to each other; or,

b) are not married to each other and are living together in a conjugal relationship;

   i) continuously for a period of not less than three years; or,

   ii) in a relationship of some permanence, if they are natural or adoptive parents of a child, both as defined in the Family Law Act.

SURPLUS - If a pension plan's assets exceed the plan's total liabilities, the difference is called a surplus.

SURVIVOR PENSION/SURVIVOR PENSION BENEFIT - A monthly benefit payable under a pension plan to the surviving spouse of a deceased employee or pensioner; usually refers to a benefit other than payments under the guaranteed annuity or joint survivor annuity provision.

TERMINATION OF EMPLOYMENT - Severance of the employment relationship for any reason other than death and retirement.

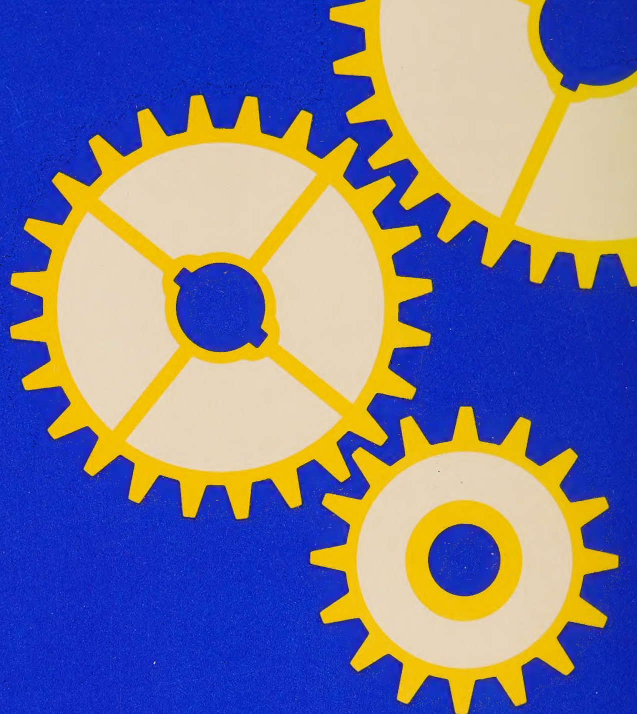
UNFUNDED LIABILITY - Generally, any amount by which the assets of a pension plan are less than its liabilities.

UPDATING (BENEFITS) - A term applied to the occasional review and increase of accrued benefits to reflect rising wage levels where the plan does not provide for automatic improvement as in final (earnings) formula.

VESTED BENEFITS (VESTING) - Benefits to which an employee is entitled under the plan as a result of satisfying age or service requirements; usually requires locking in of contributions as a result of membership in the plan for a specified period of time (two years under the Ontario Pension Benefits Act).

WINDING UP (OR WIND UP) - This occurs when a pension plan ceases to operate. All members are automatically vested and entitled to receive a pension from the company.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE) - Term used in the Canada Pension Plan, which refers to the earnings from employment on which CPP contributions and benefits are calculated. YMPE is changed each year according to a formula based on average wage levels. YMPE is published annually by Health and Welfare Canada's Income Security Programs Office (refer to the blue pages in the telephone book for listing).



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